

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ADDITION OF EVERY DOOR DIRECT MAIL –
RETAIL TO THE PRODUCT LIST

Docket No. MC2012-31

REQUEST OF THE UNITED STATES POSTAL SERVICE
TO ADD EVERY DOOR DIRECT MAIL - RETAIL
TO THE MAIL CLASSIFICATION SCHEDULE
(July 10, 2012)

In accordance with 39 U.S.C. § 3642 and 39 C.F.R. § 3020.30 et seq., the United States Postal Service hereby requests modification of the Mail Classification Schedule to add Every Door Direct Mail – Retail (EDDM-R) to the market-dominant product list, and establish the classification language and price for EDDM-R.

EDDM-R is a Standard Mail experimental product, which is currently in a market test status (Docket No. MT2011-3). EDDM-R mail must meet the same preparation requirements as the Simplified Address option for Standard Mail Saturation Mail, be flat-shaped, and weigh no more than 3.3 ounces. An EDDM-R mailing does not require a permit or mailing fee, must be entered and paid for at a local Destination Delivery Unit (DDU), and must not exceed 5,000 pieces per ZIP Code served by the DDU.

The EDDM-R market test has been successful, and the Postal Service has determined that it is time to add EDDM-R to the Mail Classification Schedule. The market test of EDDM-R began on March 31, 2011, and so far has produced revenues of over \$43 million. EDDM-R usage has been growing rapidly. Total revenue for FY 2012 is already over \$38 million. At current usage levels, the Postal Service

anticipates that EDDM-R will reach the \$50 million revenue limitation before the end of Fiscal Year 2012.

The market test has already demonstrated that sending advertising mail to every address within a community, with fewer rules, rates, and regulations, is a popular way to connect to potential and actual local customers. Many EDDM-R customers previously were non-mailers who perceived mail preparation requirements for products other than EDDM-R as too complex and too expensive for the relatively small trading areas they wanted to target. By providing the opportunity to mail without permits or related fees, and simplifying mail entry, the EDDM-R product has enabled businesses to communicate by mail at a low cost within their target marketing areas, while reducing two current major barriers to mail entry, complexity and cost.

EDDM-R meets the criteria of 39 U.S.C. § 3642. In the market test, it is categorized as a market dominant product and will continue to be classified as a market dominant Standard Mail product.¹ The Postal Service has also taken into account the additional considerations in 39 U.S.C. 3642(b)(3) as explained in Attachment B. Advertising mail qualifying as EDDM-R can only be delivered by the Postal Service, and customers have responded favorably to the product, especially small businesses that use it to inexpensively promote their business in an easy and far-reaching way. Accordingly, EDDM-R: (1) is not a special classification within the meaning of 39 U.S.C. § 3622(c)(10) for market dominant products; Attachment A shows the requested

¹ This request is for the addition of a market dominant product to the MCS, so no Governors' Decision was needed. 39 C.F.R. § 3020.31(b). EDDM-R: (1) is not a special classification within the meaning of 39 U.S.C. § 3622(c)(10) for market dominant products, (2) will not be a product not of general applicability within the meaning of 39 USC 3632(b)(3) for competitive products; and (3) is not a non-postal product. 39 C.F.R. § 3020.31(d).

changes in the Mail Classification Schedule in legislative format.² Attachment B provides a statement of supporting justification for this request, as specified in 39 C.F.R. § 3020.32.³

In Order No. 687, the Commission stated that:

If the Postal Service proposes to offer MMME [the prior name for EDDM-R] as a permanent product, it must, in support of its filing, present data showing the impact of MMME on carrier operations, *e.g.*, showing the frequency and number of routes requiring deferral of delivery of one or more bundles of Standard Mail when more than three bundles are available for delivery on that route.

In Order No. 1164, the Commission added that: “[i]nformation on advertising or other specific costs related to the proposed new product will also have to be presented at that time.” The Postal Service addresses these requests for operational impacts and cost information in Attachment B.

As explained in the supporting justification, the Postal Service believes that EDDM-R should be added to the market dominant product list. The Commission should therefore approve this request as set forth in its rules.

Respectfully submitted,

UNITED STATES POSTAL SERVICE
By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing and Product Support

Brandy A. Osimokun
David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137

² 39 C.F.R. § 3020.31(f).

³ 39 C.F.R. § 3020.31(e).

(202) 268-2986, Fax -6187
July 10, 2012

MAIL CLASSIFICATION SCHEDULE

PART A—MARKET DOMINANT PRODUCTS

* * * * *

1000 Market Dominant Product List

Standard Mail (Commercial and Nonprofit)

* * * * *

Parcels
Every Door Direct Mail – Retail

* * * * *

1200 Standard Mail (Commercial and Nonprofit)

1200.1 Class Description

* * * * *

- e. Except for Every Door Direct Mail – Retail mailings, an annual mailing fee is required to be paid at each office of mailing or office of verification by or for mailers of Standard Mail (1505.2). Payment of the fee allows the mailer to mail at any Standard Mail price.

* * * * *

1200.2 Products Included in Class

* * * * *

- Parcels (1230)
- Every Door Direct Mail – Retail (1235)

* * * * *

1235 Every Door Direct Mail - Retail

1235.1 Description

Every Door Direct Mail – Retail must meet addressing and other mail preparation requirements.

1235.2 Size and Weight LimitationsFlats

	<u>Length</u>	<u>Height</u>	<u>Thickness</u>	<u>Weight</u>
<u>Minimum</u>	<u>5 inches</u>	<u>3.5 inches</u>	<u>0.007 inch</u>	<u>None</u>
<u>and</u> <u>at least one</u> <u>dimension</u> <u>exceeds</u>	<u>10.5 inches</u>	<u>6.125 inches</u>	<u>0.25 inch</u>	
<u>Maximum</u>	<u>15 inches</u>	<u>12 inches</u>	<u>0.75 inch</u>	<u>3.3 ounces</u>

1235.3 Volume Requirements

	<u>Volume Requirements</u>
<u>Every Door</u> <u>Direct Mail –</u> <u>Retail</u>	<u>Minimum: At least all addresses on one carrier route or box section, except if the entire ZIP code has fewer than 200 pieces, in which case the minimum is all available addresses within the ZIP Code.</u>
	<u>Maximum: 5,000 pieces per ZIP Code</u>

1235.4 Price Categories

The following price categories are available for the product specified in this section:

- Saturation Flats (3.3 ounces or less) - DDU entry level

1235.5 Optional Features

None

1235.6 PricesSaturation Flats (3.3 ounces or less)

<u>Entry Point</u>	<u>(\$)</u>
<u>DDU</u>	<u>0.160</u>

Statement of Supporting Justification

I, Scott J. Davis, Manager, Pricing, am sponsoring this request that the Commission add Every Door Direct Mail – Retail (EDDM-R) to the list of market dominant products. This statement supports the Postal Service's request by providing the information required by each applicable subsection of 39 C.F.R. § 3020.32, as indicated. I attest to the accuracy of the information contained herein.

- (a) *Demonstrate why the change is in accordance with the policies and applicable criteria of the Act.*

As demonstrated below, the change complies with the applicable statutory provisions.

- (b) *Explain why, as to market dominant products, the change is not inconsistent with each requirement of 39 U.S.C. 3622(d), and that it advances the objectives of 39 U.S.C. 3622(b), taking into account the factors of 39 U.S.C. 3622(c).*

EDDM-R is currently being offered to postal customers as a market test, at the price that applies to Standard Mail Saturation DDU mail. In conjunction with adding EDMM-R to the market-dominant product list, the Postal Service proposes to establish a price of 16 cents, about 10 percent more than the Standard Mail Saturation flats DDU price. As described below, this price satisfies the policies of the Act, including the objectives and factors in 39 U.S.C. 3622(b-c). Since EDMM-R is being established as a new product, no existing rate is being adjusted, so the requirements of 39 U.S.C. 3622(d) do not apply.

The objectives of section 3622(b) are as follows:

“(b) Objectives—Such system shall be designed to achieve the following objectives, each of which shall be applied in conjunction with the others:

- (1) To maximize incentives to reduce costs and increase efficiency.
- (2) To create predictability and stability in rates.
- (3) To maintain high quality service standards established under section 3691.
- (4) To allow the Postal Service pricing flexibility.
- (5) To assure adequate revenues, including retained earnings, to maintain financial stability.
- (6) To reduce the administrative burden and increase the transparency of the ratemaking process.
- (7) To enhance mail security and deter terrorism.
- (8) To establish and maintain a just and reasonable schedule for rates and classifications, however the objective under this paragraph shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.
- (9) To allocate the total institutional costs of the Postal Service appropriately between market-dominant and competitive products.”¹

These objectives underlie Congress’ mandate that there be a new, “modern system for regulating rates and classes for market-dominant products,” to replace the prior ratemaking system of the Postal Reorganization Act (PRA). 39 U.S.C. 3622(a). These principles are largely achieved through the design of the new regulatory system

¹ For ease of reference, each objective is referred to according to its placement in section 3622(b). For example, section 3622(b)(1) is referred to as Objective 1. A similar convention is used with respect to the “factors” of section 3622(c) below.

itself, rather than through the particulars of any one pricing change made pursuant to that system.

EDDM-R advances these objectives by providing a moderately priced product that will promote efficient use of the distribution network by encouraging direct entry of new volumes at the DDU (objective 1). Moreover, it will generate new revenue, and reduce the administrative burden for mailing Standard Mail (objectives 5 and 6). The market test has attracted many new customers, and has raised over \$43 million in revenue. The new EDDM-R price maintains a just and reasonable rate schedule. Since EDDM-R is being proposed as a specific product, its costs will need to be isolated from the similar product that currently exists: Saturation/High Density Flats and Parcels. In Q4 of FY12, Postal Service data systems will begin collecting EDDM-R costs. Until then, per-unit costs for Standard Mail High Density/Saturation flats serve as a reasonable proxy for the anticipated EDDM-R product. Contribution has been approximately \$20.2 million, based on the most recently reported attributable cost of the existing High Density/Saturation Flats and Parcels product of \$0.077 per piece. Costs of \$0.077 per piece result in a 208 percent coverage at the \$0.16 price. This level of contribution helps preserve the Postal Service's financial stability, and justifies making this product permanent (objective 5).

The higher EDDM-R price, relative to EDDM mail entered at a business mail entry unit (BMEU), is justified by the customer convenience of allowing retail entry, without a requirement to pay a permit fee (objective 8). In addition to this convenience for EDDM-R customers, it should also be noted that EDDM mailings entered at BMEUs

have higher volumes than EDDM-R mailings. The higher volumes associated with EDDM entered at BMEUs further justifies the price differential between the two.

In addition to the objectives specified and discussed above, section 3622(c) enumerates fourteen factors, or considerations, that must be taken into account:

“(c) Factors—In establishing or revising such system, the Postal Regulatory Commission shall take into account—

- (1) the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery;
- (2) the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;
- (3) the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;
- (4) the available alternative means of sending and receiving letters and other mail matter at reasonable costs;
- (5) the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;
- (6) simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;

(7) the importance of pricing flexibility to encourage increased mail volume and operational efficiency;

(8) the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail;

(9) the importance of providing classifications with extremely high degrees of reliability and speed of delivery and of providing those that do not require high degrees of reliability and speed of delivery;

(10) the desirability of special classifications for both postal users and the Postal Service in accordance with the policies of this title, including agreements between the Postal Service and postal users, when available on public and reasonable terms to similarly situated mailers, that—

(A) either—

(i) improve the net financial position of the Postal Service through reducing Postal Service costs or increasing the overall contribution to the institutional costs of the Postal Service; or

(ii) enhance the performance of mail preparation, processing, transportation, or other functions; and

(B) do not cause unreasonable harm to the marketplace.

(11) the educational, cultural, scientific, and informational value to the recipient of mail matter;

(12) the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services;

(13) the value to the Postal Service and postal users of promoting intelligent mail and of secure, sender-identified mail; and

(14) the policies of this title as well as such other factors as the Commission determines appropriate.”

EDDM-R is consistent with these factors because it promotes direct mail as a valuable way to connect local businesses with their customers (Factor 1). While adding a product arguably is not consistent with the simplicity of the classification structure itself sought under factor 6, it does create a simple product and price; so while, all else equal, the schedule does indeed become more complex, it is “simpler” in that a prospective customer need not wade through the complexity of the schedule. A separate product is justified because of the distinct market characteristics of EDDM-R. 39 U.S.C. § 102(6). EDDM-R meets the needs of a distinct group of customers who wish to advertise to every address in a carrier route, and to enter mail at retail facilities without paying a permit fee. EDDM-R also provides a means to advertise at low cost, and without a need to personalize the message (Factor 1). EDDM-R is likely to benefit the public and meet an expected demand. There has been widespread interest in the product. As of June 1, 2012, over 32,000 small businesses had registered for participation in the market test, and there have been over 105,000 transactions at retail units. As of June 29, total revenue for the product this fiscal year has been over \$38 million.

As discussed in the original filing of the market test and observed during the market test to date, EDDM-R has enabled small and medium-sized businesses to communicate at low cost with their target marketing area. Small and medium-sized business marketers typically define their markets in geographic, rather than demographic terms. For instance, dry cleaners, local restaurant owners and franchisees, and small retailers often see their natural markets as being households within a certain radius of the businesses' locations. EDDM-R also has increased the value of the mail to the recipients, by providing local offers to all households within specified areas. (Factors 1, 4, and 12)

Many of these businesses have been non-mailers who perceived mail preparation requirements for products other than EDDM-R as too complex and too expensive for the relatively small trading areas they wanted to target. By providing the opportunity to mail without permits or related fees, and simplifying mail entry, the EDDM-R product has enabled businesses to communicate by mail at low cost within their target marketing areas, while reducing two of the current major barriers to mail entry (complexity and cost). (Factors 4, 6) This value justifies a higher price for EDDM-R, compared to the price for EDDM entered at a BMEU. As discussed earlier, EDDM entered at the BMEU also has higher volumes, further supporting the price differential.

(c) *Explain why, as to competitive products, the addition, deletion, or transfer will not result in the violation of any of the standards of 39 U.S.C. § 3633.*

Not applicable. The Postal Service is proposing that EDDM-R be a market dominant product.

(d) *Verify that the change does not classify as competitive a product over which the*

Postal Service exercises sufficient market power that it can, without risk of losing a significant level of business to other firms offering similar products: (1) set the price of such product substantially above costs, (2) raise prices significantly; (3) decrease quality; or (4) decrease output.

Not applicable. The Postal Service is proposing that EDDM-R be a market dominant product.

- (e) *Explain whether or not each product that is the subject of the request is covered by the postal monopoly as reserved to the Postal Service under 18 U.S.C. 1696, subject to the exceptions set forth in 39 U.S.C. 601.*

Under Section 3642(b)(2), the mail sent under this market test is also subject to the postal monopoly provided for in the Private Express Statutes.

- (f) *Provide a description of the availability and nature of enterprises in the private sector engaged in the delivery of the product.*

While there are many competing forms of advertising in the private sector, delivery of advertising mail is available only from the Postal Service. Companies that offer shared mail programs often use the Postal Service to deliver their packages. These companies are eligible to offer an EDDM-R product, which would allow their business advertisers to combine their mailing piece in one package and share the cost of postage with other advertisers, provided the company met the other EDDM-R requirements. In addition to offering an EDDM-R shared mail program, the companies can continue to attract advertisers into their non-EDDM-R programs, since the cost of postage for the advertisers in these shared mail programs can be lower than the \$.16 per piece.

Small businesses also recognize the value of the mailbox and this product provides easy access to the mailbox. However, there are other means of delivery of advertising material, which is varied. Some private businesses pay non-postal carriers to deliver advertising matter to residences such as door hangers, fliers and newspapers.

Other methods of local advertising can be inflated blow up caricatures, sign twirling, or costumed individuals. While this type of advertising may be less expensive than EDDM-R, it does not come with the security and trust the mail brings to small businesses.

- (g) *Provide any available information on the views of those who use the product on the appropriateness of the proposed modification.*

The Postal Service does not have specific customer research on whether or not customers would support EDDM-R becoming a permanent product. The most informative information regarding the views of those who use the product is their response to the market test. The growing use of the product indicates that the users, on the whole, would expect this advertising medium to continue, and would therefore support the proposed modification to the MCS to create EDDM-R as a product.

The Postal Service also has received testimonials, related to sales and revenue growth, from businesses using EDDM-R. Discussions with printers and customers who previously had not advertised in the mail have been universally positive. These printers have developed additional revenue opportunities and the customers have included direct mail in their promotion and marketing mix. Additionally, the Postal Service has worked with national print franchises such as UPS Stores and Minuteman Press to offer EDDM –R through their facilities. National storefront franchisee printers offer value-added business services to the small and home office market, typically including design, printing, and copying. To date, there have been over 6000 individual printers offering EDDM-R as part of their product mix. EDDM-R is supporting the growth of small

businesses with a cost effective advertising media and supports the printer community with an easy, efficient product to offer small businesses.

(h) *Provide a description of the likely impact of the proposed modification on small business concerns.*

The impact on small businesses is likely to be favorable in that many of them are seeking additional ways to promote their businesses. Presumably, though, this section is to address the concerns of small businesses that may be engaged in an enterprise that is affected by the creation of this product. If a business is exclusively engaged in providing mailing lists, then it might have a small negative impact on them, however the product will be targeted toward new users which do not currently employ the services of list providers. Additionally, it is expected that some of the new users will move on to sending targeted, list-based mailings after experiencing the benefits of EDDM-R, thereby increasing the customer base for mailing list providers. Also, as described above, even though EDDM-R is designed for ease-of-use, many customers will secure the services of other small businesses to create the mailing.

Ultimately, EDDM-R was designed to help small businesses connect with current and potential customers, who often are within a small geographic region. As far as future price changes are concerned, the regulatory structure for market dominant products is designed to protect customers, including small businesses, in markets where the Postal Service has substantial market power, by limiting price increases through the price cap.

Although this product has been designed with small and medium-sized customers in mind, all customers, including Mail Service Providers (MSPs), are eligible

to participate in the program. EDDM-R has generated additional volume from potential customers who do not currently use the mail. The product has been designed to generate revenue from new mailers. When deciding to advertise for the first time, these new mailers might typically use MSPs for services including mailpiece design, printing, and mail preparation and entry. Examples of types of MSPs being used include medium-size printers, who offer on-line turn-key packages for EDDM-R, and also national storefront franchisee printers, who have promoted EDDM-R at their stores. . EDDM-R has provided an opportunity for MSPs to attract new customers, as well as expand their businesses with existing ones. The Postal Service offers a kit to MSPs explaining how to promote EDDM-R to local businesses. The kit has been ordered by over 8,000 MSPs. As a result of two direct mail campaigns directed at printers and MSPs, the Postal Service received over 8,000 requests for the EDDM Printer kit, which shows how printers and other MSPs can produce and handle EDDM-R mail for their customers. In addition to participation by over 300 UPS Stores, other national chains and franchises are preparing to offer EDDM-R to their customers.

Additionally, non-mail options for advertising will remain competitive. There is no reason to believe that creating and mailing an EDDM-R advertising piece, including design and printing, is significantly less expensive than currently available advertising options. The attraction of EDDM-R lies in its convenience. EDDM-R enhances the role of mail as one among many options for small business to get their message to their audience.

EDDM-R is designed to be part of an integrated marketing plan for small and medium-size business. Small and medium-sized business marketers with limited

budgets currently engage with customers and prospective customers via various advertising media and electronic channels, including local radio and television advertising, newspaper ads, various kinds of display advertising, internet banners and e-mail. EDDM-R, rather than substituting for other media, will enhance the businesses' ability to use mail as part of their total marketing plan.

- (i) *Include such other information, data, and such statements of reasons and bases, as are necessary and appropriate to fully inform the Commission of the nature, scope, significance, and impact of the proposed modification.*

This section will be used to respond to the directives of Order No. 687 and Order No. 1164, as well as provide other information covered by this requirement to fully inform the Commission about this proposed modification. The Commission specifically asked the Postal Service to present data, in support of its filing for a permanent product, showing the impact of EDDM-R on carrier operations, in addition to information on advertising or other specific costs related to the proposed new product.

Current USPS systems do not afford an effective method to identify and track EDDM-R mailings impact within the postal system. From an operations perspective, a saturation mailing is defined as a sequence set which does not delineate EDDM-R or EDDM (BMEU) mailings from non EDDM-R saturation or high-density mailings. While there may be some impact on preparing the mail for delivery, current costs for Saturation Mail, the proxy for EDDM-R, reflects 25-percent of saturation flats as "cased". Casing requires in-office delivery personnel to combine all forms of saturation mailings through either direct casing of mail or merging multiple bundles of saturation mail with other mail being delivered that day rather than being taken directly to the delivery route as a "third bundle".

With the introduction of new workloads, specifically EDDM-R or traditional saturation and high-density, additional sequence sets could impact daily carrier operations by increasing the number of bundles, on any given day of the week, for a specific carrier route. Depending on the type of carrier route, and number of sequence sets, additional handling of EDDM-R or other saturation mailings may result in deferrals, of one or the other mailing, in an effort to manage workload and contain costs. This impact is greatest on foot and park-and-loop type routes, which comprise 32 million out of the 80 million residential deliveries. Ultimately, the impact of EDDM-R on delivery will depend on the level of usage of the new product, similar to other new products requiring additional handling.

If EDDM-R is approved as a permanent product, it will be quantified in the normal course of product costing. EDDM-R markings will be added to Postal Service data systems in Quarter 3 of this fiscal year. These systems will be able to report on EDDM-R assuming the mail is properly marked and there is considerable volume separate from other High Density and Saturation flats for reliable costing.

The cost of ongoing advertising is not expected to have much of an incremental impact on the costs attributed to EDDM-R. However, there have been several advertising campaigns, including promotional materials, in FY 11 and FY 12, for the Every Door Direct Mail concept. The cost of the advertising is split according the relative volume in each channel. For FY 11, 7.5 percent of volume was EDDM-R, and for FY12YTD, 18.9 percent of volume was EDDM-R. Accordingly, the total EDDM-R advertising forecasted for FY 12 is \$4,432,357 (using that 18.9 percent figure), and the estimate for FY 13 (assuming the FY12 percentage applies) is \$2,268,000.